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SEPTEMBER 1988

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

CIGARETTE PROMOTION

Playing to a Shrinking Audience



- ▶ DIRECT SALES
Mirror of today's women
- ▶ COMPLAINT MANAGEMENT
Bad news can be good
- ▶ WHITE-COLLAR WORKERS
What really motivates
- ▶ INCENTIVE TRAVEL SURVEY
- ▶ MOTIVATION SHOW SCHEDULE

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

SEPTEMBER 1988

84th YEAR, VOL. 162, NO. 9

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just
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INCENTIVE (formerly Incentive Marketing/Incorporating Incentive Travel) covers the methods used by organizations to motivate customers at all levels to buy and employees to work more effectively.

Cover Illustration: Tommy Soloski



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Bill publications: FoodService Director, Incentive, Institutional Distribution, Jobber Retailer, Modern Tire Dealer, Plastics Technology, Restaurant Business, Restaurant/Hotel Design International, Sales & Marketing Management, Successful Meetings. Information divisions: DataComm, Market Statistics, Plaspec, Sales Builders, SM Data Bank.

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In the musical production "The Wiz," the Wicked Witch sang "Don't Nobody Bring Me No Bad News." For business people, a complaint is bad news. It indicates that a customer is dissatisfied with a company's product or service.

But when it comes to complaints, the smart person in business will not sing the Wicked Witch's song. Complaints provide a valuable barometer of performance. A complaint is an opportunity to reinforce the link between company and customer. "Bad news" like that should be welcomed and even solicited by firms.

Complaint handling should be part of the marketing strategy. Most successful companies use a blend of offensive and defensive strategies. On the offense, the objective is to generate new customers through the use of advertising, promotion and incentives. The goal of defense is to hang onto current customers.

One type of defensive strategy focuses on fighting competition: If you can keep new competitors from entering your field, your customers—even the dissatisfied ones—will have little choice but to remain with you. A more feasible defensive strategy is to focus on keeping customers. The objective is to keep the customer satisfied so he will not want to switch.

An excellent way to do that is to encourage customers to let you know when they have a problem and then to resolve the problem in a way that preserves customer satisfaction.

Why bother at all with defense? It is a matter of cost. The cost of generating a new customer can be a lot higher than that of retaining a current one. Volvo, the Swedish automobile manufacturer, estimates that it costs three times as much to attract a new customer as it does to keep a current one.

Auto production is a mature industry with fierce competition—the type of business environment in which defense can cost a lot less than offense. But how does one assess the value of defense, particularly customer complaint management, in other industries that have different business conditions?

Research has been conducted to help demonstrate the likely impact of complaint management in a variety of cases and provides general guidelines for determining how much to invest in customer compensation. The research applies mathematical analysis to



TOM BLOOM

Managing Complaints

Customer complaint management provides a valuable means of monitoring performance and can help your company improve market share.

current market forces. The chart on page 56 shows the market share gains a company could anticipate if it introduced a complaint management program in an industry where no other such programs exist.

Complaint management is not just a matter of receiving complaints. Even without encouragement, some customers will complain. All it takes is an error on the part of a company or the perception that performance has fallen short of expectations.

When a company undertakes complaint management, it establishes a system to resolve the grievance in such a way that the dissatisfied customer remains loyal. Such a system actually seeks out dissatisfied customers, encouraging them to voice their displeasure instead of silently fleeing to the competition.

One of the most visible indications of such efforts is the installation of toll-free 800 numbers. Perhaps as many as

This article is adapted from "A Model for Customer Complaint Management" by Professor Claes Fornell of the Graduate School of Business Administration at the University of Michigan and by Associate

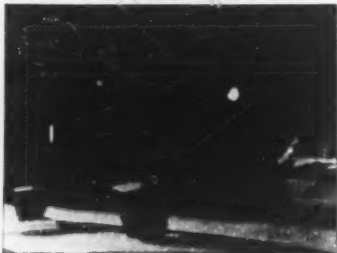
Professor Birger Wernerfelt of the J. L. Kellogg Graduate School of Management at Northwestern University. It was originally published by the Institute of Management Sciences, Providence, R.I.

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Effective complaint management systems seek out dissatisfied customers rather than let them flee silently to a competitor.

200 million calls concerning customer problems are made to these numbers each year.

In addition to helping preserve the patronage of dissatisfied customers, complaint management can provide other benefits as well. Sales can be enhanced when consumers become aware that a company has an effective system for handling complaints. Making a purchase will seem less of a risky undertaking to the prospective buyer. At the same time, the system sends a signal of quality that increases the perceived value of the purchase. These positive impressions can spread by word of mouth, with a resulting boost in sales.

Warranties, guarantees and service contracts are important parts of complaint management, but complaint management systems entail more than these alone. A warranty or service contract extends aid only to those buyers covered by the agreement, while complaint management usually applies to all customers. A warranty typically states that a product, if covered, will be brought to working order at the expense of the seller. Complaint management, on the other hand, may offer several different types of compensation, not just making the product workable.

Finally, complaint management is often tied to quality-improvement efforts—such as the hotel chain that uses complaints to insure quality control at individual outlets.

Complaint management costs money. All solutions provided to the customers under the system—money returned, repair services, replacement products, product-use information, etc.—represent an expense for the company. The structure of the system—for instance, the cost of a toll-free number—and informational advertising add to the price tag.

But while there are costs in establishing and operating a complaint management system, there also are

costs in failing to do so. Those costs can be summed up in two words: lost business.

Even without complaint management, some dissatisfied customers will remain loyal. And even when complaint management is available, some dissatisfied customers will desert anyway. But there is a portion of dissatisfied customers for whom complaint management will make a difference. Research suggests that the costs of complaint management generally are less than the costs of doing without.

There are two instances in which a company would have no need for complaint management. One is if the firm never made a mistake. Theoretically, "perfect" technology would produce "perfect" results, and no customer would even complain. The second instance is if the company knew with certainty that none of its competitors was taking any action to manage complaints. Human fallibility and business competition being what they are, neither instance is very realistic.

In virtually all other cases, it makes good sense to invest in complaint management. Some banks that did so scored a 170 percent return on their investment, according to a recent survey by the consumer affairs advisor to the President and members of the U.S. Consumer Affairs Council. For some companies in the packaged-goods industry, the figure was 75 percent, while some retailing firms reported a return on investment as high as 400 percent.

Complaint management will not provide the same degree of benefit to everyone. Research shows that complaint management has its greatest impact when the profit margin is high, the cost of providing compensation is relatively low, and the cost to the customer of a defective product is high. If any of these factors apply to your company, you would be well advised to facilitate the voicing of complaints to the fullest extent possible and to compensate generously. The

MARKET SHARE GAINS FROM COMPLAINT MANAGEMENT (1)

Industry	Fraction retained (2)	Number of competitors	Average market share without complaint management	Average market share with complaint management
► Eyeglasses	51%	8	12.5%	22.6%
► Tools	47%	12	8.3%	14.7%
► Floor coverings	33%	23	4.3%	6.3%
► Clothing	33%	39	2.6%	3.9%
► Blankets, sheets	19%	65	1.5%	1.9%

(1) Based on mathematical models used in research of complaint management.

(2) Percentage of complainants finding product satisfactory after compensation (based on research by A. Best and A.R. Andreasen, "Consumer Response to Unsatisfactory Purchases").

same is true if your company's products are of high quality and if customers are quality sensitive.

Even if a company has a monopoly, there are still advantages to complaint management. The system enables the firm to continue doing business with a sector of customers who would otherwise be lost—for example, customers who would consider pur-

chase of the product too risky without the safeguard provided by complaint management.

It also is true, however, that the farther a firm is away from a monopoly situation, the more attractive complaint management becomes as a way to retain customers. Customers with unresolved complaints usually have other places to take their business.

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The cost of getting new customers can far exceed the cost of keeping current ones.

In the case where a firm gets the jump on its competitors by introducing complaint management before them, the impact will be greatest in an industry with a limited number of players. Consumers in such an industry who wish to switch their patronage have relatively few alternatives, so one company can increase market share by attracting appreciable numbers of dissatisfied customers from other companies.

Not surprisingly, the establishment of complaint management often goes hand in hand with an increase in complaint volume. With an effective system in place, dissatisfied customers—who might have previously been silent deserters—start complaining.

Problems arise if the increased complaint volume is viewed as a negative by company personnel. Management may penalize employees for a surge in complaints—through unfavorable performance evaluations or lower executive bonuses, for example. When a company does that, emulating the Wicked Witch in her admonition against bringing "bad news," it undermines the program and denies itself a valuable resource.

Based on this research, companies should make it as easy as possible for customers to voice complaints. A higher volume of complaints can lead to increased sales and profits by enabling the company to retain rather than silently lose dissatisfied customers.

In addition, companies should create an incentive for managers to communicate the nature of complaints within the organization so that measures can be taken to avoid them in the future. Performance awards should not be given to employees for lowering the number of complaints, because that would encourage them to cover up or deliberately reduce the number of complainants. Instead, awards should be based on customer satisfaction surveys. □

Sales gains from incentive travel campaigns dipped this year, but costs have dropped too.

FACTS Survey

Incentive travel campaigns have born a little less fruit than last year—but are still inviting enough to yield an average 7.9 percent planned increase in spending by marketers before 1988 ends.

Surveyed executives told **Incentive** that they expect sales gains of 18.4 percent during travel campaigns this year. A similar survey last year found an average of 20.8 percent.

Users invested almost \$2.1 billion in moving their dealers, salespeople and other employees around the United States and the world in 1987 incentive programs—representing a 7 percent increase over the year before.

Sales-force incentive travel was the bigger growth area last year, showing a spending gain of 10.7 percent,

compared with dealers' 3.1 percent. But this year's forecasts have no such disparity, with sales travel expenditures up 7.7 percent and dealer incentives up 8 percent.

In both categories—sales and dealer incentives—the decline in results comes as no real surprise. Earlier surveys this year have shown both merchandise and travel promotions doing less well than a year ago. Sales incentive programs overall were reported yielding 19.7 percent, down from 20.9 percent a year ago. Dealer incentives brought an average of 16.2 percent, compared with last year's 18.4 percent.

The good news is that the cost of travel programs, which headed skyward a year ago, has leveled off. Last year's average trip cost 19 percent more than in 1986. Now the average per-person price has declined to \$1,611 from \$1,638. And the median has dropped to \$1,300 from \$1,400.

Although salespeople and dealers this year are delivering less in new volume, slightly more of them are actually qualifying for trip awards—37 percent, compared with 34 percent a year ago.

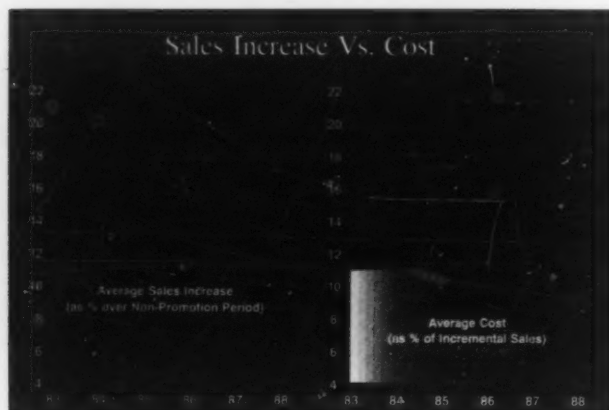
With sliding sales results and more winners, we might expect a rise in program cost relative to incremental sales. But the small drop in per-person trip cost has curbed that effect. The 233 survey respondents say they are spending an average of 10.4 percent of incremental sales—actually a shade lower than the 10.7 percent found in 1987. The median cost is 8 percent.

Balancing costs against sales projections, quotas and qualification is a tricky business. The main question is: Where does the money come from? The majority of 61 percent say they establish a special campaign budget in advance—allocating funds based on a variety of factors including estimated participation, trip cost, promotion cost and what can logically be expected in sales return. Another 18 percent use regular promotion funds—

usually so much per product unit—to cover the costs. The sales forecast is the key for 15 percent, who budget a percentage for the campaign. A minority of 6 percent relates the budget solely to projected incremental sales.

Most programs are open-ended, providing awards for all who reach stated qualifying levels. Seventy-two percent of users use this approach. The remaining executives run promotions with predetermined numbers of winners, which makes budgeting much easier but is likely to weaken the motivational benefits.

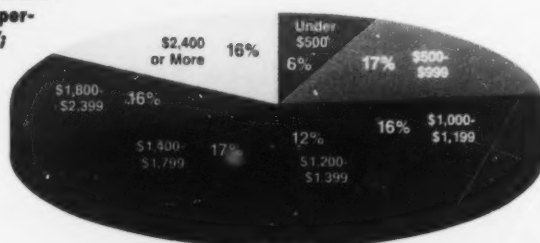
Budgets must be translated at some point into the language of



Expectations of sales gains from incentive travel programs declined 2.4 percent this year (top). Meanwhile, costs are down: The average per-person price fell by \$27; the median sank by \$100.

Cost of Incentive Trip

Per Person - 1988



Average - \$1,611

Median - \$1,300

TRAVEL FACTS IN BRIEF

► Programs per year (median)

Domestic: 2

Foreign: 1

► Group trips

Users: 64%

Average number of participants: 131

Median number of participants: 70

Average length: 5 nights

► Business meetings

Hold meetings: 62%

Average number of hours/trip: 9.5

► Buy-ins

Allow buy-in: 33%

Average of buy-in: 28%

► Merchandise

Users with travel: 48%

► Consumer travel

Users: 12%

Pay for it: 69%

Trade for it: 17%

► Decision-makers

President, executive VP, CEO: 70%

Director, sales/marketing: 23%

Product/merchandise manager: 3%

Director, advertising/sales

promotion: 3%

Meeting planner: 2%

qualification—quotas. Fifty-three percent of these users base their quotas for salespeople or dealers on the company sales forecast, which becomes a factor in setting the budget. Forty-one percent prefer to work back from the budget estimates, setting the individual quotas to fit. The remaining 6 percent use other methods or say they do not have quotas.

To evaluate results, 57 percent of

these marketers count the total units or dollars sold. But a substantial number—39 percent—look at the percentage of eligible people reaching their quotas. Smaller percentages prefer criteria that are probably more meaningful but more difficult to assess: increase in market share (27 percent) and profit on incremental sales (20 percent). About 12 percent measure the degree of branch or district

performance. The total exceeds 100 percent by quite a bit, because many users apply more than one measurement.

The length of the planning period ranges from a few weeks to two years, with an average of 39 weeks. The average selling period lasts 29 weeks.

A New England wholesaler with a six-figure travel budget starts planning two years ahead and finds a major problem in "having to guarantee travel and hotel arrangements so far in advance." An insurance-company vice president, who moves more than 200 people on four-day trips twice a year, starts planning 72 weeks ahead for a 64-week sales period. At that rate, he points out, "there is a problem having the same personnel on site during the meeting that you planned with 18 months before." A feed company plans a year ahead for its trips: With a 24-week selling period, an executive says, it is difficult to "know what the agriculture economy will be by the time you run your sales contest."



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Despite the uncertainties, travel can be worth the trouble because of its effect on participant morale and goodwill. After "increasing overall sales"—the front-runner at 70 percent—"improving morale or goodwill" is the second strongest objective, chosen by 51 percent of survey respondents.

In a similar survey on sales incentives in general, 39 percent found their programs effective in the morale/goodwill area. In an overall dealer incentive survey, only 21 percent considered it important.

Other objectives cited by these travel users are selling new accounts, 41 percent; introducing new products, 29 percent; moving full line or slow items, 26 percent; offsetting competition, 19 percent; bolstering a slow season, 16 percent; preparing for a strong season, 13 percent; building dealer traffic, 10 percent, and supporting consumer promotions, also 10 percent.

The participants who make these things happen are listed in eight categories in the survey. On average, the respondents direct their incentive

Top 10 Incentive Travel Users (1987)

Insurance	\$259,776,000
Electronics, Radio, TV	\$185,170,000
Auto Parts, Tires, Accessories	\$154,261,000
Automobiles & Trucks	\$137,147,000
Heating & Air Conditioning	\$109,879,000
Office Equipment	\$83,903,000
Farm Equipment	\$81,500,000
Building Materials	\$61,349,000
Electric Appliances	\$61,062,000
Toiletries & Cosmetics	\$51,677,000

Percentage of Field Represented By Top 10

65%

Travel Calendar



This year's "top 10" (above) resembles last year's. February climbed 9 percentage points to become the leading month for trip starts (below).

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■ DESTINATIONS

The most popular cities are listed in order of mentions.

► DOMESTIC (418 responses)

- 76 - HAWAII
Maui
Kauai
Honolulu
- 70 - CALIFORNIA
San Francisco
San Diego
Los Angeles
Palm Springs
Lake Tahoe
Anaheim
- 63 - FLORIDA
Orlando
Florida Keys
Boca Raton
Disney World
Ft. Lauderdale
Marco Island
- 24 - NEVADA
Las Vegas
Reno
- 21 - ARIZONA
Phoenix
Tucson
- 21 - NEW YORK
Manhattan
- 19 - LOUISIANA
New Orleans
- 14 - PUERTO RICO
San Juan
- 12 - TEXAS
Dallas
San Antonio
- 10 - TENNESSEE
Nashville
Memphis
Gatlinburg
- 8 - GEORGIA
Atlanta
- 7 - ILLINOIS
Chicago
- 7 - MASSACHUSETTS
Boston
Hyannis

- 7 - PENNSYLVANIA
Philadelphia
Lancaster
New Hope
Pittsburgh
Poconos
- 7 - SOUTH CAROLINA
Hilton Head Island
- 7 - VIRGIN ISLANDS
St. Thomas
- 5 - COLORADO
Denver
Vail
- 5 - D.C.
- 4 - MINNESOTA
Minneapolis
- 4 - VIRGINIA
- 3 - MISSOURI
Kansas City
St. Louis
- 3 - NEW JERSEY
Atlantic City
- 3 - WISCONSIN
- 2 - MICHIGAN
- 2 - NORTH CAROLINA
- 1 - ALABAMA
- 1 - ALASKA
- 1 - ARKANSAS
- 1 - DELAWARE
Wilmington
- 1 - IDAHO
Sun Valley
- 1 - IOWA
Lake Okosoji
- 1 - MISSISSIPPI
Biloxi
- 1 - NEW HAMPSHIRE
Dixville Notch
- 1 - OHIO
N. Canton

- 1 - OREGON
Portland

- 1 - VERMONT

- 1 - WASHINGTON
Seattle

- MISCELLANY
Resort weekends (1)
World Series (1)

► FOREIGN (271 responses)

172 - WESTERN HEMISPHERE

- 56 - MEXICO
Cancun
Acapulco
Puerto Vallarta
- 42 - CARIBBEAN
Jamaica
Antigua
St. Maarten
Aruba
Barbados
- 27 - BAHAMAS
Nassau
Paradise Island
- 18 - CANADA
Montreal
Toronto
Quebec
- 11 - CRUISES
Caribbean
Mexico
Mexico/Cayman Islands
Mexico/Jamaica/Cayman
Nassau/Jamaica/Cancun
- 7 - BERMUDA
- 4 - DOMINICAN REPUBLIC
- 4 - SOUTH AMERICA
- 3 - BRITISH WEST INDIES
Cayman Islands
- 68 - EUROPE
- 22 - ENGLAND
London
- 10 - FRANCE
Paris
- 8 - ITALY
Rome

- 8 - SPAIN
- 3 - SWITZERLAND
- 2 - GERMANY
- 2 - IRELAND
- 2 - SCOTLAND
- 2 - SWEDEN
- 1 - DENMARK
Copenhagen
- 1 - NETHERLANDS
Amsterdam
- 1 - PORTUGAL
Lisbon

- MISCELLANY
United Kingdom (4)
Mediterranean (2)

3 - AFRICA

- 1 - SOUTH AFRICA
- 1 - EGYPT
- 1 - CANARY ISLANDS

20 - FAR EAST

- 10 - HONG KONG
- 2 - KOREA
- 2 - THAILAND
Bangkok
- 1 - CHINA
- 1 - JAPAN
- 1 - PHILIPPINES
Manila
- 1 - SINGAPORE
- 1 - TAIWAN
Taipei

- MISCELLANY
Asia (1)

4 - SOUTH PACIFIC

- AUSTRALIA
- NEW ZEALAND

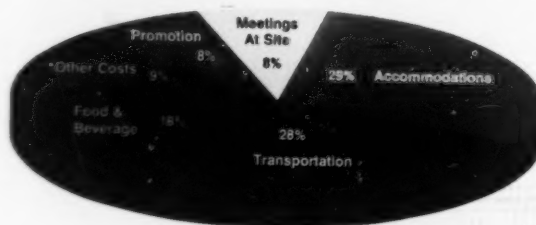
Respondents also reported six cruises to unnamed destinations, one trip around the world and one choice of any destination in the United States, Mexico or the Caribbean.

programs at two groups. Company sales personnel top the list at 71 percent. Retailers are the beneficiaries of incentive travel programs by 27 percent of users, followed by distributors at 24 percent. Independent sales representatives are targeted by 11 percent, direct selling people by 18 percent, dealer salespeople by 15 percent, nonsales employees by 15 percent and distributor salespeople by 13 percent.

Twelve percent of survey respondents said they use travel for consumer promotions. Of these, 67 percent said they pay for the travel awards, leaving only a minority who fund them through barter arrangements.

When we asked, "Do you accept guests other than spouses?" 74 percent said "yes" and 26 percent said "no." Of those who welcome non-spouse guests, 52 percent indicated that they allow guests of the same sex,

Where The Travel Budget Goes



*Includes Ground Transportation, Side Trips, Insurance, Entertainment, Etc.

36 percent checked "opposite sex," a few indicated both, and the rest did not answer.

Fewer in this year's survey are accepting outside planning help than in most studies in the past. Forty-six percent prefer using in-house staff to arrange incentive travel programs, 42 percent choose local travel agents, and 20 percent use full-service incentive houses.

Even with first responsibility in the house, one must rely on outsiders

for many aspects of the travel plan, and it proves vexatious to many. A California electronics firm has difficulty "getting suppliers and ground services to deliver exactly what they originally contract for."

A Massachusetts manufacturer works with an inside staff to set up trips to domestic destinations, with a \$100,000 budget. But he is frustrated trying to "find hotels that will treat a group of 50 to 100 people with the same attention and options as groups of 300 and greater. Most chain hotels won't do anything special for small groups."

An Ohio appliance executive stated his problem: "In a word, 'communication'—with the incentive house and/or travel agent to get the proper understanding of our needs. Too often, the incentive house/travel agent doesn't hear what we are saying. They want to do it their way for the obvious reasons: ease and greed." □

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